REPORT TO THE

SAN FRANCISCO BOARD OF SUPERVISORS

ANALYSIS OF POTENTIAL DEDICATED FUNDING SOURCES FOR THE MUNICIPAL RAILWAY (MUNI)

BOARD OF SUPERVISORS
BUDGET ANALYST

NOVEMBER, 1995

CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUDGET ANALYST

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November 6, 1995

Honorable Carole Migden
Member, San Francisco Board of Supervisors
City and County of San Francisco
Room 235, City Hall
San Francisco, CA 94102

Dear Supervisor Migden:

Pursuant to your request, we have analyzed various dedicated funding options for the Municipal Railway (MUNI), with regard to the feasibility of such options and the amount of potential revenue that each option would generate.

MUNI ten-year revenue and expenditure projections show sizable, and growing, annual operating deficits. Our analysis identifies the range of estimated operating deficits and examines various potential dedicated revenue sources for MUNI.

Our projections show an operating deficit of approximately $7.2 million for MUNI in FY 1996-97, growing over the decade to approximately $66 million in FY 2005-06. In preparing this report, we explored options which could allow the City to completely remove MUNI costs from the General Fund and replace the General Fund contribution with a dedicated revenue source. Without the General Fund contribution, we project that MUNI would face an operating deficit of $44 million in FY 1996-97, growing to approximately $116.3 million by FY 2005-06. MUNI's FY 1995-96 budget, as approved by the Board of Supervisors, forms the starting point of our projections. However, MUNI administration currently estimates that its FY 1995-96 budget is underfunded by a total of $11 to $18 million in FY 1995-96. (See Appendix IV for the Department's response to this report.) It should also be noted that potential cuts in Federal and State funds for transit capital needs, in contrast to operating needs, could have a future detrimental impact on MUNI. If MUNI prepares any updated projections of its funding needs to meet scheduled service

levels in the future, we will review such data at the direction of the Board of Supervisors.

The focus of this report is an analysis of potential dedicated funding sources for MUNI. We have concentrated on funding sources which are, or have historically been, dedicated to transit, in San Francisco and elsewhere. We identified these funding sources through discussions with administrators of MUNI and the San Francisco County Transportation Authority, other transit districts in California and nationwide, Metropolitan Transportation Commission (MTC) staff, California Transit Association staff, and a review of recent studies that have dealt with transit funding.

The potential funding mechanisms that we have examined are as follows:

- Sales Tax Increase Dedicated to Transit
- Increase in Proportion of BART Sales Tax Allocated to MUNI
- Vehicle License and Vehicle Registration Fee Surcharges
- Downtown Assessment District
- Citywide Assessment District
- Bay Bridge Toll Increase
- County or Regional Gas Tax
- Dedication of Possible Airport Payback to MUNI
- MUNI Fare Increase

The description of each funding mechanism includes a background statement, a description of the steps that would have to occur in order to implement the mechanism, and the estimated revenues that could be generated over a ten year period from this revenue source. Our projections show that the first year (FY 1996-97) estimated revenues from these sources range from approximately $2.9 million for a one cent County Gas Tax up to, potentially, the full deficit amount of $7.1 to $44 million (depending upon whether or not the General Fund contribution is eliminated) for a Citywide Transit Assessment District. In the last year of our projections (FY 2005-06), the estimated revenues range from $2.2 million for a one cent County Gas Tax up to, potentially, the full projected deficit amount of $66 million to $116.3 million for a Citywide Transit Assessment District. A comparison of ten-year revenue estimates for each of the options listed above is shown in Table 10 on page 20 of this report.

We direct your attention to comments on our report submitted by Mr. Roger Contreras, MUNI Deputy Director for Finance, Administration and Personnel, which are presented in Appendix IV. These comments outline additional funding options that were raised by MUNI following completion of this report, provide general comments on our analysis, and present MUNI's general position on the approach that should be taken in obtaining dedicated revenue sources.

We wish to acknowledge the assistance of the Controller's Office and the City Attorney's Office in the preparation of this report. While the Controller has

reviewed our draft report, the revenue projections contained in this report are estimates prepared by the Budget Analyst. The Controller would develop and certify formal revenue projections for any of the potential revenue sources considered here at such time as they were considered for adoption by the Board of Supervisors.

It should be noted, that while the Budget Analyst has identified the alternative funding sources as listed above, the Budget Analyst makes no recommendations in this report, because we consider the selection of any such funding sources to be a policy matter for the Board of Supervisors.

Respectfully Submitted,

Harvey M. Rose
Budget Analyst

cc: President Shelley
Supervisor Alioto
Supervisor Ammiano
Supervisor Bierman
Supervisor Hallinan
Supervisor Hsieh
Supervisor Kaufman
Supervisor Kennedy
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Chief Administrative Officer
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Teresa Serata
Robert Oakes
Ted Lakey
Philip H. Adams
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ANALYSIS OF POTENTIAL DEDICATED FUNDING SOURCES FOR MUNI

Section I: Problem Statement

On October 2, 1995 the Board of Supervisors approved a resolution directing the Budget Analyst to explore dedicated funding options for the Municipal Railway (MUNI), with regard to the feasibility of such options and the amount of potential revenue that each would generate.

MUNI ten-year revenue and expenditure projections show sizable, and growing, annual operating deficits, which are detailed below. In addition, MUNI is already operating below listed service levels, because staffing and maintenance budgets are not fully funded. As labor and other costs increase in the coming decade, Federal operating revenues are expected to be eliminated, and the General Fund contribution to MUNI's operating budget will remain uncertain because of the many competing demands on the City's resources. In order to close the operating deficit, one or more of the following steps will have to be taken:

(a) increase the General Fund contributions to MUNI;

(b) implement fare increases;

(c) reduce operating expenses through reductions in service and/or new labor contracts; and/or;

(d) implement new revenue sources.

In preparing this report, it was requested that the Budget Analyst explore options which could allow the City to completely remove MUNI costs from the General Fund, and replace the General Fund contribution with a dedicated revenue source. In this report we quantify revenues that could be raised from potential alternative dedicated funding sources over a ten year period. Such funding sources could be used to augment the existing level of funding for MUNI in order to eliminate the projected deficit, or to both eliminate the projected deficit and replace the General Fund as a source of operating revenue for MUNI. The scenarios examined in this report do not involve a shift of funds from current General Fund sources to the MUNI, such as was implemented through Proposition M, as such shifts would not result in net revenue benefits to MUNI.

In Section 2, we will quantify MUNI's funding needs and provide a range of dedicated funding goals, based on, (1) eliminating the projected deficit, assuming continued General Fund support for MUNI; and, (2) eliminating the projected deficit and replacing the General Fund as a source of operating revenue for MUNI. In Section 3, we will examine potential alternative sources of dedicated funding for MUNI.

We wish to acknowledge the assistance of the Controller's Office and the City Attorney's Office in the preparation of this report. While the Controller has reviewed our draft report, the revenue projections contained here are estimates prepared by the Budget Analyst. The Controller would develop and certify formal revenue projections for any of the potential revenue sources considered here at such time as they were considered for adoption. It should also be noted, that while the Budget Analyst has identified alternative funding sources, the Budget Analyst makes no recommendations in this report, because we consider the selection of any such funding sources to be a policy matter for the Board of Supervisors.

Section II: Projected MUNI Operating Deficit

MUNI's operating budget is funded in FY 1995-96 by the following revenue sources:

Table 1: MUNI Operating Fund Sources

Source of Operating Funds	Budgeted Funding Sources FY 1995-96	Percent of Total FY 1995-96 Operating Budget
City General Fund	$35,611,000	12.7%
Parking Fines/Meter Revenues	76,955,000	27.4
Fare Revenues (with Paratransit)	91,479,000	32.6
Proposition B Sales Tax Revenues[1]	4,477,000	1.6
Hetch Hetchy Transfer	7,730,000	2.7
Advertising and Misc.	3,617,000	1.3
Transit Impact Development Fee	4,637,000	1.7
State and Regional Subsidies	50,990,000	18.1
Federal Operating Subsidies	5,322,000	1.9
Total Operating Budget	$280,818,000	100.0%

It should be noted that in each of the last five years, MUNI has incurred a substantial operating deficit, and has been granted supplemental appropriations ranging up to $8 million. An operating deficit is likely to recur in MUNI's FY 1995-96 budget. The Budget Analyst previously estimated that the Platform Salaries item in the FY 1995-96 budget could be underfunded by up to $2.5 million. The FY 1995-96 budget included an assumption that this $2.5 million could be saved through operating efficiencies during the year, but in practice the operating deficit is made up largely through missed service. In addition, MUNI typically experiences deficiencies in its Materials and Supplies budget, in Workers Compensation, and in other areas. MUNI currently estimates that its FY 1995-96 budget is underfunded by $2 to $9 million, and expect to request a supplemental appropriation to balance its budget. In addition, MUNI reports that an additional $6 million annually would be required to meet scheduled service. Finally, MUNI states that an additional estimated $3 million annually is needed to improve MUNI's administrative and management capacity as recommended by State and Federal funding agencies, which brings the total to $11 to $18 million in additional funds which could be required to balance the budget, meet scheduled service and address administrative "inadequacies" in FY 1995-96. If MUNI prepares updated projections of its funding needs to meet scheduled service levels in the future, we would be pleased to review such data for the Board of Supervisors.

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[1]Table 1 shows only that portion of Proposition B Sales Tax revenues designated for MUNI operating service. This represents approximately 9.4 percent of the total projected FY 1995-96 Proposition B Sales Tax revenues of $47.34 million. Proposition B revenues are also used for MUNI capital needs, paratransit, and street repair and traffic safety projects.

The Budget Analyst has reviewed MUNI projections of operating expenses and revenues over the next ten years, and prepared independent projections that form the basis of our estimate of revenue needs. Both the Budget Analyst projections and the projections provided in MUNI's Short Range Transit Plan are explained in Appendix 1 of this report. In general, MUNI's internal projections assume 4 percent annual growth for most revenue sources and expenditure items. As detailed in Appendix 1, we believe that 4 percent annual growth is overly optimistic for MUNI revenue sources, and have used 3.5 percent annual growth for most revenue sources.

At the same time, we believe that projecting 4 percent annual growth in MUNI labor costs is unwarranted given that, in the past five years, MUNI's overall salary spending, including regular, overtime, and other types of pay, have increased by 8.4 percent, or an average of 1.68 percent per year. Benefit costs have decreased by 14.6 percent over the same time period, although Worker's Compensation costs have increased by 82 percent. The Budget Analyst's projections of MUNI's operating costs assume that labor cost increases are held to the rate of inflation, or 3.5 percent. We use MUNI's assumption that cost control measures for Workers Compensation will achieve control over the growth of these expenditures. All other operating costs in our projections, with the exception of equipment lease payments, which are scheduled to end in FY 1997-98, are also shown increasing at an inflation rate of 3.5 percent annually.

A ten-year projection of MUNI operating deficits resulting from the analysis in Appendix 1 is shown in Table 2 below, under the assumptions that; (1) the General Fund contribution is set at the FY 1995-96 level of approximately $35.6 million, plus annual inflationary increases of 3.5 percent, or, (2) the General Fund contribution to MUNI is eliminated. Table 2 establishes a range of needed dedicated revenues for MUNI, depending upon whether the Board of Supervisors wishes to fund MUNI's existing projected operating deficit or to both replace the General Fund contribution and fund the existing projected operating deficit. As stated earlier, this report focuses on addressing MUNI's operating deficit through raising dedicated revenues, but the deficit could also be addressed through increasing the General Fund contribution and/or reducing operating expenses. In addition, we reiterate that MUNI's approved budget, which forms the starting point of this projection, may be underfunded. MUNI's current projection is that the agency is underfunded by up to $18 million in FY 1995-96. These projections also use the assumption made by MUNI in the Short Range Transit Plan that MUNI will continue to deliver less than scheduled service levels.

This report focuses on MUNI's operating needs. MUNI's capital program for the next five years shows programmed expenditures of approximately $900 million, assumes approximately $571 million in Federal matching funds, and requires approximately $330 million in local, State and regional matching funds. At this point, adequate local matching funds are programmed from a variety of sources. However, Federal budget balancing efforts, the failure of new State bond measures in 1994 and other State funding shortfalls for transportation make it

likely that Federal and State funding for transit capital programs may be significantly delayed or reduced from programmed levels. Finally, the ability to carry out other, longer range capital programs, such as replacement of MUNI maintenance and revenue-handling facilities, development of the Third Street corridor, and construction of the Metro East LRV facility, are in doubt.

Table 2: Projected MUNI Operating Deficits over Ten Years

Fiscal Year	Projected Operating Deficits if General Fund Contribution Increases 3.5% Annually	Projected Operating Deficits if General Fund Contribution Eliminated
FY 1996-97	$7,159,000	$44,017,000
FY 1997-98	13,554,000	51,701,000
FY 1998-99	20,202,000	59,685,000
FY 1999-00	27,244,000	68,109,000
FY 2000-01	33,722,000	76,017,000
FY 2001-02	40,397,000	84,172,000
FY 2002-03	46,526,000	91,834,000
FY 2003-04	52,873,000	99,766,000
FY 2004-05	59,333,000	107,867,000
FY 2005-06	66,046,000	116,279,000

Section 3: Potential Dedicated Funding Sources for MUNI

Introduction

In this section we analyze potential dedicated funding sources for MUNI. For the purposes of this study, we have focused on funding sources which are now or have historically been dedicated to transit, in San Francisco or elsewhere. The funding mechanisms that we have examined are as follows:

- Sales Tax Increase Dedicated to Transit
- Increase in Proportion of BART Sales Tax Allocated to MUNI
- Vehicle License and Vehicle Registration Fee Surcharges
- Downtown Assessment District
- Citywide Assessment District
- Bay Bridge Toll Increase
- County or Regional Gas Tax
- Dedication of Possible Airport Payback to Transit
- MUNI Fare Increase

The description of each funding mechanism includes a background statement, a description of the steps that would have to occur in order to implement the mechanism, and the estimated revenues that could be generated over a ten year period from this revenue source. A comparison of ten-year revenue estimates for each of the options listed above is shown on Table 10 on page 20 of this report.

1. SALES TAX INCREASE

Background: The voters of San Francisco passed Measure B in 1989, which established a half cent sales tax for transportation in the City and County of San Francisco. Measure B funds are administered by the Transportation Authority. This sales tax will expire after FY 2009-10. In addition, residents of San Francisco pay a half cent sales tax for BART, which is administered by the Metropolitan Transportation Commission (MTC). MUNI and AC Transit each receive 12.5 percent of the BART sales tax revenues, pursuant to AB1107, which was passed in the late 1970s.

San Francisco's sales tax is currently 8.5 percent. According to the City Attorney, the State legislature has given the City the authority to increase the sales tax by another half percent. If the additional revenue from such a half cent increase were dedicated to a specific purpose, such as transit, the increase would require two-thirds voter approval.

Implementation Procedure: Ms. Julia Friedlander of the City Attorney's Office advises that, under State Revenue and Taxation Code Section 7285, the Board of Supervisors could, by a two-thirds vote of its members, place a measure on the ballot to increase the sales tax. The City Attorney's Office advises that any new dedicated sales tax proposed in San Francisco would require approval by two-

thirds of the voters. It should be noted that San Francisco, at the current 8.5 percent rate, has the highest sales tax in the State.

Projected Revenues: The following table is based on MTC projections:

Table 3: Annual Projected Revenues from Local Sales Tax Increase

Projected Annual Revenues	Quarter Cent Sales Tax	Half Cent Sales Tax
FY 1996-97	$24,109,500	$48,219,000
FY 1997-98	25,576,500	51,153,000
FY 1998-99	26,934,000	53,868,000
FY 1999-00	28,364,000	56,728,000
FY 2000-01	29,870,000	59,740,000
FY 2001-02	31,456,000	62,912,000
FY 2002-03	33,126,000	66,252,000
FY 2003-04	34,885,000	69,770,000
FY 2004-05	36,737,000	73,474,000
FY 2005-06	39,371,000	78,742,000

2. INCREASE PROPORTION OF BART SALES TAX FOR MUNI

Background: As stated above, MUNI and AC Transit currently each receive 12.5 percent of the BART half cent sales tax. The only way to increase the proportion of BART sales tax revenues allocated to MUNI would be to decrease the allocation to BART and/or AC Transit. MUNI administrators are developing a proposal that would reallocate the BART half cent sales tax based on the proportion of total ridership associated with each transit system. Such a reallocation would provide MUNI with 61.8 percent of the revenues from the BART half cent sales tax, or an additional $78.7 million in FY 1996-97, at the same time reducing BART's revenues by $87 million, with the balance reallocated to AC Transit. In this report, we have taken the more conservative approach of analyzing the increased revenues from raising the allocation to MUNI from 12.5 percent of the total to a range of 15 percent to 17.5 percent of the total BART half cent sales tax revenues.

Implementation Procedure: MTC has the authority to change the allocation of the BART District Sales Tax revenues, so the City would have to bring such a proposal to the MTC for approval.

Projected Revenues: The following table is based on MTC projections of revenues from the BART District regional half cent sales tax:

Table 4: Annual Projected Revenues from Increase in BART Sales Tax Allocation

Projected Annual Revenues	2.5 Percent Increase in MUNI Allocation	5 Percent Increase in MUNI Allocation
FY 1996-97	$3,994,975	$7,989,950
FY 1997-98	4,258,900	8,517,800
FY 1998-99	4,508,800	9,017,600
FY 1999-00	4,773,450	9,546,900
FY 2000-01	5,053,750	10,107,500
FY 2001-02	5,350,525	10,701,050
FY 2002-03	5,664,975	11,329,950
FY 2003-04	5,997,950	11,995,900
FY 2004-05	6,350,625	12,701,250
FY 2005-06	6,879,600	13,759,200

3. VEHICLE LICENSE AND VEHICLE REGISTRATION FEE SURCHARGES

Background: In October of 1993 the Governor signed AB925, (drafted by Supervisor Barbara Kaufman), which permits the voters of San Francisco to impose (1) a local vehicle license fee (VLF) surcharge, and (2) a local vehicle registration fee (VRF) surcharge on the registration or renewal of registration of specified vehicles within the City, for the provision of transit capital, security and maintenance costs. In other words, revenue from these surcharges could not be spent on operating costs other than security and maintenance costs. However, MUNI's other operating revenue sources are fungible, so it would be possible to augment total operating revenues by dedicating the revenues from such surcharges to meeting MUNI security and maintenance costs.

The VLF and VRF surcharges may be imposed on all vehicles, except those vehicles which are expressly exempted from the payment of vehicle registration fees and commercial vehicles weighing more than 4,000 pounds unladen. The State enabling legislation requires that the surcharges be eliminated if and when a MUNI fare increase is implemented. In other words, the Board of Supervisors could not increase MUNI fares and charge these vehicle license and vehicle registration surcharges.

Under the State Vehicle Code, the State currently imposes a vehicle license fee on all vehicles that use the public highways, which is equal to 2 percent of the vehicle's market value, based on the depreciated value of the vehicle. The passage of AB925 authorized the City to impose a local VLF surcharge of up to 15 percent of the State's vehicle license fee on all vehicles except for those exceptions described above.

The State also currently imposes a base vehicle registration fee of $29 on each vehicle using a public highway. In addition, there is a total of $7 in vehicle registration fee surcharges including: (1) $1 fee for abandoned vehicle removal, (2) $1 fee for service authorities for freeway emergencies, (3) $1 fee for vehicle theft

deterrence, investigation and prosecution, and (4) $4 fee for air pollution abatement. The passage of AB 925 authorizes the City to impose a vehicle registration fee surcharge of $4 on all vehicles except for commercial vehicles weighing more than 4,000 pounds unladen.

Implementation Procedure: In order to implement the VLF and VRF surcharges, the following must occur: (1) the Board of Supervisors must make a finding that: (a) traffic congestion within the City could be alleviated by public transit, and (b) the cost of funding public transit exceeds revenues collected from either the VLF surcharge or the VRF surcharge; (2) the Board of Supervisors must adopt an ordinance to impose the VLF and VRF surcharges and place such ordinance on the ballot; and (3) two-thirds voter approval must be obtained. As stated above, if MUNI fares are increased at any time while the VLF or VRF surcharges are in effect, the surcharges must be eliminated.

Projected Revenues: The following projections are calculated based on information provided by the State Department of Motor Vehicles. All revenues collected by the State Department of Motor Vehicles (DMV), after the deduction of the administrative costs incurred by the DMV for the implementation and administration of the VLF and VRF surcharges will be paid to San Francisco. The DMV estimates that the cost to implement the VLF and VRF surcharges would be approximately $77,715, which would be incurred over a six-month period. The DMV estimates that the annual ongoing costs associated with the administration of the VLF and VRF surcharges are approximately $75,474. (See Appendix 2 for a detailed description of the projection methodology.) Because the State legislation precludes MUNI fare increases during the time that a VLF and VRF are in effect, analysis of this potential revenues source must be compared with the revenues that could be generated from fare increases that keep pace with inflation over the ten year period. The summary figures at the end of this section, as presented in Table 10, permit such a comparison.

Table 5: Projected Annual Revenues from City Vehicle License and Registration Surcharges

	VLF Surcharge	VRF Surcharge	Total Net Revenues
FY 1996-97	$6,386,895	$1,635,380	$8,022,275
FY 1997-98	6,621,360	1,651,740	8,273,100
FY 1998-99	6,866,294	1,668,464	8,534,758
FY 1999-00	7,122,156	1,685,552	8,807,708
FY 2000-01	7,389,428	1,703,020	9,092,448
FY 2001-02	7,668,572	1,720,852	9,389,424
FY 2002-03	7,960,129	1,739,064	9,699,193
FY 2003-04	8,264,620	1,757,652	10,022,272
FY 2004-05	8,588,818	1,777,812	10,366,630
FY 2005-06	8,914,635	1,795,960	10,710,595

State Assembly Appropriations Committee 1993 Revenue Estimate

In 1993, the State Assembly Appropriations Committee analysis of AB 925 indicated that if the City imposed the VLF and VRF surcharge fees, the City would generate approximately $10.9 million annually, including $9.2 million from the VLF surcharge fee and approximately $1.7 million from the VRF surcharge fee. The revenue estimates generated by the State Assembly Appropriations Committee are approximately $2.9 million greater than those estimated by the Budget Analyst.

The State Appropriations Committee based their analysis on a statewide average vehicle license fee of $150 for all vehicles. However, DMV published data shows that the statewide average Vehicle License Fee in 1993 was $102 for automobiles and motorcycles, and $65 for trucks and trailers. In 1994, DMV published data shows that the statewide average VLF is $105 for automobiles and motorcycles, and $64 for trucks and trailers. Our analysis is based on the 1994 published data provided to us by the DMV.

Based on these data, and on DMV estimates of the number of vehicles subject to the surcharge, we estimate that total revenue from the VLF and VRF surcharge fees would generate approximately $8.0 million annually in FY 1996-97, or $2.9 million less than the estimate provided to the State Assembly in 1993.

4. DOWNTOWN ASSESSMENT DISTRICT

Background: In 1981, the Board of Supervisors commissioned studies to determine the value of the benefit that downtown property owners receive from the higher level of MUNI service provided to and within downtown. The initial proposal would have established an assessment district in the area bounded approximately by the Embarcadero to the east, Folsom Street to the south, Gough Street to the west and Vallejo Street to the north. Assessments were proposed to be levied on commercial space in this area. However, the Board of Supervisors did not set up a transit assessment district at that time. In November of 1994 the voters of San Francisco defeated Proposition O, which would have urged the Board of Supervisors to establish a Downtown Transit Assessment District and provided up to $300,000 to update the research to establish such a district. Prop. O stated that the boundaries should be reconfigured to include expanded commercial areas developed since 1981 or expected to be developed in the next decade.

Implementation Procedure: State law permits local and regional jurisdictions to form special assessment districts by ordinance that charge property owners for benefits conferred by public facilities in their area and the maintenance required for such facilities. As with any ordinance action, such a district can be established by a majority vote of the Board of Supervisors with the signature of the Mayor. In addition, establishment of a benefit assessment district requires that the City notify all affected property owners of the intention to create the assessment district and levy the assessment.

In creating the assessment district, the City must produce an Engineer's Report which: a) presents a defensible methodology to quantify the amount of benefit to downtown property owners from the higher level of MUNI service in the area, b) quantifies the cost of providing this higher level of service, and c) apportions the cost associated with the higher level of downtown MUNI service among property owners with a formula that reasonably relates the assessment to the benefits which are derived. The Engineer's report is then approved by resolution, two public hearings which are required by State law must be scheduled, and a 45-day comment period during which time property owners may protest the assessment is opened. Proceedings to form the assessment district must be stopped if a majority of property owners protest the assessment within the 45 day period. If a majority of property owners do not protest, the City may proceed with forming the assessment district and levying the assessment. Under State law, benefit assessment districts must be renewed annually, and an Engineer's report produced which updates the research relating assessments to benefits. It should be noted that there are significant administrative and legal costs associated with forming an assessment district and administering the funds raised, due to the necessity to notify property owners, and to the need to respond to property owner protests, among other requirements.

The 1981 downtown assessment district studies had two principal parts:

- A calculation of the amount by which MUNI service downtown exceeds the service provided in the rest of the city, and the value of that higher level of MUNI service as represented in such benefits as savings in worker transportation costs; savings in worker, customer and client time; and the savings in not having to provide parking facilities.

- A determination of the cost of operating downtown-related services, the revenues generated by downtown-related services, and the "net deficit" arising from such services. If the City had proceeded with the formation of a benefit assessment district at that time, this net deficit amount would likely have been fully apportioned among commercial property owners in the assessment district, based on a calculation of the transit usage generated per square foot for different categories of property (office building, retail, warehouse).

<u>Projected Revenue:</u> In the time available to research the current report, it is not possible to reexamine and update the research done for the 1981 reports, due to the extreme complexity involved in determining the growth of downtown in both size and value, the increase in the value of MUNI services, and many other factors. At the time, consultants determined that the *"downtown net deficit"* to be apportioned among property owners in a transit assessment district was an amount of $20,780,000. In 1995 dollars, this amount would be $33,933,740, based on increases in the Consumer Price Index in the San Francisco Bay Area from 1981 to the present. For the purposes of this report, this amount of $33,933,740 is assumed to be the <u>minimum</u> that could be apportioned in a downtown transit benefit assessment district beginning in 1996-97. It should be noted that San Francisco currently imposes a Transit Impact Development Fee (TIDF) of $5.00 per square foot on new downtown office space, and that properties which have

been subject to this fee would be entitled to an offset of some portion of assessments under a downtown assessment district. As the costs of providing downtown MUNI service rise, the amount of operating funds to be raised through the benefit assessment district could also increase. As such, revenues from this source can be projected to increase, at minimum, at the rate of inflation. If new MUNI services added over the coming years disproportionately benefit the downtown area, the costs of such services could also potentially be included in an assessment.

Table 6: Annual Projected Revenues from a Downtown Assessment District

Projected Annual Revenues	3.5 percent annual increase
FY 1996-97	$33,933,740
FY 1997-98	$35,121,421
FY 1998-99	$36,350,671
FY 1999-00	$37,622,944
FY 2000-01	$38,939,747
FY 2001-02	$40,302,638
FY 2002-03	$41,713,231
FY 2003-04	$43,173,194
FY 2004-05	$44,684,255
FY 2005-06	$46,248,204

5. CITYWIDE TRANSIT ASSESSMENT DISTRICT

Background: State law, which allows the creation of benefit assessment districts for particular areas, also allows the creation of such districts citywide. Such districts have been created to fund the operation and maintenance of city parks, street lighting, street maintenance, and other services. As with the downtown assessment district described above, the assessment to be levied must be reasonably related to the benefit to be derived to property from the facilities, and must be assessed annually. The Swanson report published recently by the San Francisco Chamber of Commerce has proposed a Citywide Transit Service and Maintenance District, with an assessment to be set annually by a new MUNI Railway Transit District Board to raise an increment of operating and capital funding for MUNI to augment existing General Fund, Parking revenues, State, and Federal funding.

In May of 1995, the Board of Supervisors considered and then tabled a proposal to create a citywide assessment district to fund Recreation and Park Department (RPD) services and maintenance that would have raised up to $15.5 million, based on assessments averaging from $55.43 for a single family dwelling to $173.50 for a hotel or motel. Because assessments are based on a complex formula involving an apportionment of benefits from the funded operation, it cannot be assumed that the level of assessments for a citywide transit district would be related to those calculated for the RPD assessment district. However, these figures provide some indication of the cost to property owners of a MUNI citywide assessment district,

which would be lower if the district was designed to cover the MUNI deficit while keeping the General Fund contribution constant (approximately $7.1 million in FY 1996-97), and considerably higher if the district was designed to cover the existing projected MUNI deficit and replace the General Fund contribution to MUNI (approximately $44 million in FY 1996-97.)

Implementation Procedure: Again, as above, a citywide assessment district can be established by ordinance following the public notification procedures, preparation of the Engineer's Report, and other procedures outlined in the previous section. In addition, Ms. Friedlander notes that, in order for the Engineer's Report to establish that MUNI provides special benefits to property owners citywide, a new analysis would be required. The special benefits analysis prepared for a downtown benefit assessment district may not be applicable to a citywide assessment district. In addition, as with the downtown assessment district discussed above, properties which have been subject to the TIDF fee would be entitled to an offset of some portion of assessments under a citywide assessment district.

Projected Revenues: As noted above, the Board of Supervisors previously considered an ordinance to create a City-wide assessment district to fund operations and maintenance of City parks. This proposal would have raised up to $15.5 million annually beginning in FY 1995-96, based on assessments averaging from $55.43 for a single family dwelling to $173.50 for a hotel or motel. In the case of a MUNI assessment district, it is possible that a City-wide benefit assessment district could be sized to fund MUNI's entire operating deficit, which, as noted above, is estimated to start at $7.1 million in FY 1996-97, with the current General Fund contribution held constant, and $44 million without the General Fund contribution. (The Engineer's Report would have to establish that this level of "special benefit" from MUNI services is received by San Francisco property owners.) In other words, the annual revenue stream could possibly be established each year to equal the MUNI operating deficit.

6. BAY BRIDGE TOLL INCREASE

Background: In general, bridge toll funds collected in the Bay Area are used for the repayment of bonds, bridge maintenance, and for several major construction projects. Revenue of approximately $11 million annually from $0.25 of the southern bridge tolls (Bay Bridge, San Mateo Bridge and Dumbarton Bridge) is distributed among transit operations, (MUNI, AC Transit, BART, SAMTRANS). Bridge toll revenues are generally used as a match for Federal Section 9 funds. The MTC estimates that, in the absence of toll increases, there will be limited growth in overall bridge toll revenues for the foreseeable future, because most of the bridges, including the Bay Bridge, are at capacity.

The MTC has developed a proposal to institute congestion pricing on the Bay Bridge, under which the toll would rise to $3 from 6 a.m. to 9 a.m. and from 3 p.m. to 6 p.m. This proposal is currently under discussion among State legislators, but no legislative action is expected in the near future. Also, Rep. Bob

Campbell of Contra Costa is preparing a bill that would charge an extra $1.00 on all Bay Area bridges for transit.

Implementation Procedure: Approval of the State legislature would be required to institute congestion pricing or to increase the basic Bay Bridge toll. Specific legislative authorization would be required to enable use of such bridge toll revenues for transit operating (as opposed to capital) expenditures. San Francisco would need to bring a proposal for a Bay Bridge toll increase to the MTC, which could then bring it to the State legislature. The City could go directly to the State legislature, but because the MTC coordinates regional transit policy, MTC support would be critical in an effort to increase bridge tolls.

Projected Revenues: The projected revenues from a $1.00 increase in the Bay Bridge toll have been calculated by the MTC assuming a five percent carpool elasticity factor. (In other words, the projections assume that the number of vehicles traveling on the Bay Bridge would decrease by 5 percent as commuters carpool more in reaction to a $1.00 toll increase.) Because traffic on the Bay Bridge is already close to capacity, the MTC does not project increases in Bay Bridge commuters over the next decade. Therefore, a flat annual total revenue projection from a $1 Bay Bridge toll increase of $38,364,065 is estimated. MUNI currently receives approximately 30 percent of the Bay Bridge toll revenues designated for transit. Assuming that the entire $1.00 toll increase was dedicated to transit, and that the allocation of 30 percent of bridge toll transit funds to MUNI was applied to such toll increase, we estimate annual revenues of $11,509,219 to MUNI from a $1.00 Bay Bridge toll increase.

7. COUNTY GAS TAX

Background: The State gasoline tax is currently 18 cents per gallon. San Francisco voters approved an initiative during the 1980s which authorized an increase in the gas tax at the County level. However, this County gas tax was never implemented, and Ms. Friedlander advises that, because the measure was approved by a simple majority rather than a two-thirds majority of the voters, a new vote would be required to institute a County gas tax at this time. Gasoline consumption is not expected to increase over the coming decade, as alternative fuels become more viable for motor vehicles. The Controller's Office also advises that the number of gas stations in San Francisco has decreased in recent years, although it is not known whether this trend will continue.

Implementation Procedure: Ms. Friedlander reports that implementation of a County gas tax would require two-thirds voter approval. She advises that there may be other implementation requirements, which the City Attorney can pursue if the Board of Supervisors is interested in this option.

Projected Revenues: The table below is based on State Board of Equalization data, taking the ratio of taxable sales at service stations in San Francisco in 1994 to comparable sales statewide, and multiplying that proportion by total gasoline consumption in California in 1994. We estimate that 309,701,503 gallons of

gasoline were sold in San Francisco in 1994. We have projected future gasoline sales using MTC projections of trends in gasoline consumption in the Bay Area, which assume approximately 2.95 percent annual declines in gasoline consumption over the coming decade, largely because of increasing use of alternative fuels. There would likely be a further reduction in purchase of gasoline in San Francisco as a result of the price increase associated with a County gas tax. We have assumed a 5 percent price elasticity factor (i.e. a 5 percent reduction in gasoline purchases in San Francisco) associated with a 5 cent per gallon County gas tax.

Table 7: Annual Projected Revenues from Local Gas Tax

Fiscal Year	1 Cent per Gallon County Gas Tax	5 Cent per Gallon County Gas Tax
FY 1996-97	$2,916,986	$13,855.685
FY 1997-98	2,830,935	13,446,942
FY 1998-99	2,747,423	13,050,258
FY 1999-00	2,666,374	12,665,275
FY 2000-01	2,587,716	12,291,649
FY 2001-02	2,511,378	11,929,046
FY 2002-03	2,437,292	11,577,139
FY 2003-04	2,365,392	11,235,613
FY 2004-05	2,295,613	10,904,163
FY 2005-06	2,227,893	10,582,590

8. REGIONAL GAS TAX

Background: The MTC has proposed legislation that would permit the Bay Area to vote to institute a regional gas tax. This legislation has passed the State Senate but stalled in the Assembly. (SB877, Sen. Alquist). The legislation would put a 10 cent per gallon excise tax on gas in the nine county Bay Area. Revenues would be allocated to localities by the MTC based on projected population. Revenues could be used for public transit operations and maintenance, but would not be restricted to such purposes. For example, street maintenance could also be funded with the revenues generated by this proposed regional gas tax.

Implementation: The State Legislature would first have to vote to authorize a Bay Area gas tax. The legislation that is currently in the State Legislature states that the MTC could then request each of the nine counties to place a gas tax measure on their ballot. Two-thirds voter approval would be required, although as of the writing of this report, the State Office of Legislative Council had not determined whether the approval of voters in all nine counties would have to be obtained in order for the gas tax to be implemented in any of the counties.

Projected Revenues: The following table is based on Board of Equalization estimates of gasoline consumption in the Bay Area during calendar year 1994, and MTC projections of future trends in gasoline consumption in the Bay Area.

Table 8: Annual Projected Revenues from Regional Gas Tax

Fiscal Year	10 Cent per Gallon Regional Gas Tax
FY 1996-97	$6,974,000
FY 1997-98	27,033,000
FY 1998-99	26,197,000
FY 1999-00	25,386,000
FY 2000-01	24,637,000
FY 2001-02	23,910,000
FY 2002-03	23,205,000
FY 2003-04	22,519,000
FY 2004-05	21,854,000
FY 2005-06	21,239,000

9. DEDICATION OF POSSIBLE AIRPORT PAYBACK TO TRANSIT

Background: The Board of Supervisors has directed the Budget Analyst to conduct an audit of the San Francisco International Airport in order to independently determine; (a) the amount, if any, of surplus Airport funds, and, (b) the amount of monies which the City's General Fund has contributed to the Airport, since the inception of the San Francisco International Airport in 1927. This audit is currently in progress.

Federal regulations currently limit the use of airport revenues to airport-related expenditures. There are several other legal constraints limiting the use of airport revenues to airport-related expenditures, however, a repayment to the City by the Airport may not be subject to such restrictions. Therefore, it would potentially be possible to dedicate any such future payment from the Airport to a trust fund to support MUNI operations. (Such payback would otherwise go to the General Fund, or any other fund designated by the Board of Supervisors). The tourism link between airport functions and public transit functions could provide a rationale for dedicating any airport payback to transit.

At the time this report was written, no estimates were available of the amount of money that might be recovered from the Airport. Furthermore, there are major legal uncertainties relative to the City's ability to immediately recapture monies owed by the Airport. The Budget Analyst will issue the "Analysis of the Original Funding Sources of the San Francisco International Airport" by the end of 1995. We present the idea of dedicating the Airport payback to support MUNI operations as an option that merits further consideration subsequent to the release of the Budget Analyst's report on this matter.

10. FARE INCREASE

Background: Over the last five years, MUNI's fare structure has been changed several times to help balance the budget. In 1991, and again in 1992, MUNI fares and/or Fast Pass prices were increased. In August of 1993, the adult Fast Pass price was increased from $32.00 to $35.00, and other changes including elimination of transfers and the introduction of a Day Pass were instituted. This structure was dropped approximately seven months later in March of 1994. The adult fare of $1.00 has been in place since August of 1992, and the Fast Pass price of $35.00 per month set in 1993 remains in place. Discount fares for youth, seniors, and the disabled were raised as part of the August 1993 increase and remain at the level of 35¢ per ride and $8.00 for the Fast Pass. With some lag periods, MUNI fares have roughly kept pace with inflation for the ten year period from 1985 to the present. Fare revenue reached its highest level in FY 1993-94, generating approximately $96.6 million. Ridership has fallen approximately 3.6 percent annually in the last three years, resulting in lower fare revenues despite the increases in fare levels outlined above. However, fares remain MUNI's largest single source of revenue, projected at $91,479,000 for FY 1995-96, approximately 32.5 percent of revenues.

In order to remain eligible for certain categories of funding, including AB1107 funds, MUNI is required to keep fare collections at a minimum of 32 percent of operating costs. Several adjustments are permitted to this "farebox recovery ratio." Local operators may include other funds, including local sales tax funds dedicated to transit, in the revenues applied to the recovery ratio, and up to a 5 percent credit is permitted if discount fares for seniors, youth and the disabled are part of the fare structure. While base MUNI fares have increased roughly at the rate of inflation, the current $1.00 fare is an average to low base level, in comparison to other major metropolitan transit systems, such as New York (going up to $1.50 during November), Chicago ($1.50), and, in the Bay Area, AC Transit ($1.25). In addition, most monthly transit system passes are based on a 40-ride assumption, which would price the MUNI Fast Pass at $40.00. For these reasons among others, in its annual reviews of MUNI's financial capacity, MTC has stated that MUNI should raise fares, in order to meet a portion of its operating deficit.

Implementation Procedure: Fare increases must be proposed by the Public Transportation Commission (PTC). The Board of Supervisors, through their normal public hearing processes, can approve, modify or reject fare increase proposals made by the PTC.

Additional methods for adjusting fares are also possible. City Charter Section 3.705, which establishes the PTC's and Board's authority to set fares, would have to be amended to establish an automatic periodic fare adjustment based on inflation or on a farebox recovery ratio to generate a fixed percentage of MUNI's operating budget. However, the PTC could propose and the Board of Supervisors could approve an ordinance setting a multi-year schedule of specific fare increase amounts without a Charter amendment.

Projected Revenues: MUNI currently estimates its total annual ridership at 216,330,887. Historically, fare increases do somewhat decrease ridership. As noted above, MUNI ridership has decreased approximately 3.6 percent per year for the last three years. MUNI does not have historical data to project the potential effects of a fare increase on ridership in the system, however, studies conducted by the U.S. Department of Transportation (DOT) have found that, on average, a fare increase can be expected to reduce ridership by approximately 1/3 of the percentage increase in the fare. For example, a ten percent fare increase could be expected to reduce ridership by approximately 3 percent. The following revenue projection looks at the effects of a 10 percent fare increase to $1.10 in FY 1996-97, followed by an additional approximately 10 percent increase to $1.20 in FY 2001-02, and a 15 percent fare increase to $1.15 in FY 1996-97, followed by an additional approximately 15 percent increase to $1.30 in FY 2001-02, factoring in ridership loss at the DOT-projected rate in FY 1996-97, and assuming flat ridership after that point. It should be noted that these estimates are extremely rough, using MUNI's total revenue figure as the base amount, without regard to the differing types of fares paid that make up that base, in addition to the various assumptions listed above.

Table 9: Annual Projected Revenues from Fare Increases

Fiscal Year	Current Base Fare Projection	With 10% Increase From Base	Amount of Increase From Base	With 15% Increase From Base	Amount of Increase From Base
FY 1996-97	$91,479,000	$100,352,463	$8,873,463	$101,084,295	$9,605,295
FY 1997-98	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 1998-99	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 1999-00	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 2000-01	91,479,000	100,352,463	8,873,463	101,084,295	9,605,295
FY 2001-02	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2002-03	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2003-04	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2004-05	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939
FY 2005-06	91,479,000	110,387,709	18,908,709	116,246,939	24,767,939

SUMMARY OF REVENUE POTENTIAL OF FUNDING SOURCES

A comparison of the projected revenue streams that could be generated by the dedicated funding sources examined in this report with our estimates of the MUNI operating deficit (with and without the current General Fund contribution) is presented in Table 10 on the following page. It should be noted that Table 10 presents all revenues sources based on what they would generate if implemented from the beginning of FY 1996-97; if implementation of any new revenue source were delayed, some portion of these revenues would not be available.

The Budget Analyst was asked to identify potential dedicated revenues sources for MUNI; therefore reductions in operating expenditures are not a part of this analysis. Clearly, some combination of measures may need to be taken to address MUNI's long term operating deficit. In addition, as noted above, MUNI's funding requirements to balance their budget and to meet scheduled service may be higher than existing, already-projected deficits. In particular, Table 10 shows that none of the potential sources of revenue examined in this report, with the possible exception of a citywide assessment district, would, by themselves, raise sufficient revenue to both eliminate the projected operating deficit and replace the current General Fund contribution to MUNI. We also wish to direct the reader's attention to the implementation procedures which are described earlier in this report for each revenue source, as many of the options would require approval by two-thirds of San Francisco voters. This report provides a resource for policy makers by identifying and quantifying potential dedicated revenue sources for MUNI.

Table 10: Comparison of Alternative Revenue Options With Projected Deficit

PROJECTED DEFICIT VS. ALTERNATIVE REVENUE OPTIONS	**FISCAL YEAR** 1996-97	1997-98	1998-99	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
Projected Deficit:										
Muni Funding Needs										
General Fund Included	7,159,000	13,554,000	20,202,000	27,244,000	33,722,000	40,397,000	46,526,000	52,873,000	59,333,000	66,046,000
General Fund Removed	44,017,000	51,701,000	59,685,000	68,109,000	76,017,000	84,172,000	91,834,000	99,766,000	107,867,000	116,279,000
Alternative Revenue Options:										
Local Sales Tax Increase										
Quarter Cent	24,109,500	25,576,500	26,934,000	28,364,000	29,870,000	31,456,000	33,126,000	34,885,000	36,737,000	39,371,000
Half Cent	48,219,000	51,153,000	53,868,000	56,728,000	59,740,000	62,912,000	66,252,000	69,770,000	73,474,000	78,742,000
BART Tax Allocation Increase										
2.5 percent	3,994,975	4,258,900	4,508,800	4,773,450	5,053,750	5,350,525	5,664,975	5,997,950	6,350,625	6,879,600
5 percent	7,989,950	8,517,800	9,017,600	9,546,900	10,107,500	10,701,050	11,329,950	11,995,900	12,701,250	13,759,200
Vehicle Fee Surcharges	8,022,275	8,273,100	8,534,758	8,807,708	9,092,448	9,389,424	9,699,193	10,022,272	10,366,630	10,710,595
Downtown Assessment District	33,933,740	35,121,421	36,350,671	37,622,944	38,939,747	40,302,638	41,713,231	43,713,231	44,684,255	46,248,204
Citywide Assessment District	Up to full deficit amount		" "	" "	" "	" "	" "	" "	" "	" "
Bay Bridge Toll $1 Increase	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219	11,509,219
County Gas Tax										
1 cent per gallon	2,916,986	2,830,935	2,747,423	2,666,374	2,587,716	2,511,378	2,437,292	2,365,392	2,295,613	2,227,893
5 cents per gallon	13,855,685	13,446,942	13,050,258	12,665,275	12,291,649	11,929,046	11,577,139	11,235,613	10,904,163	10,582,490
Regional Gas Tax										
10 cents per gallon		27,033,000	26,197,000	25,386,000	24,637,000	23,910,000	23,205,000	22,519,000	21,854,000	21,239,000
Dedication of Possible Airport Payment to MUNI	No estimate available at this time			" "	" "	" "	" "	" "	" "	" "
MUNI Fare Increases										
10 percent	8,873,463	8,873,463	8,873,463	8,873,463	8,873,463	18,908,709	18,908,709	18,908,709	18,908,709	18,908,709
15 percent	9,605,295	9,605,295	9,605,295	9,605,295	9,605,295	24,767,939	24,767,939	24,767,939	24,767,939	24,767,939

BUDGET ANALYST'S DEFICIT PROJECTION

This Appendix outlines the overall funding needs of MUNI, taking into account several factors which will affect the agency's projected revenue and budget needs, in order to arrive at an estimate of the deficit facing the MUNI system and of the amount of funds which would need to be raised by a dedicated funding source. MUNI's own projections of revenues, expenditures, and expected deficits, as included in its Short-Range Transit Plan (SRTP), completed in October of 1995, are shown in Tables 12 and 13. The Budget Analyst's projections, shown in Table 11, use somewhat more conservative projections for inflation rates, for labor increases, and for some revenue sources. Background information on funding sources, expenses, and projected rates of increase, is given below.

In each of the last five years, MUNI has incurred a substantial operating deficit, and has been granted supplemental appropriations ranging up to $8 million. An operating deficit is likely to recur in MUNI's FY 1995-96 budget. The Budget Analyst previously estimated that the Platform Salaries item in the FY 1995-96 budget could be underfunded by up to $2.5 million. The FY 1995-96 budget included an assumption that this $2.5 million could be saved through operating efficiencies during the year, but in practice the operating deficit is made up largely through missed service. In addition, MUNI typically experiences deficiencies in its Materials and Supplies budget, in Workers Compensation, and in other areas.

MUNI officials currently estimate that the FY 1995-96 budget is underfunded by $2 to $9 million, and expect to request a supplemental appropriation to balance the budget. In addition, MUNI officials have stated that an additional $6 million annually would be required to meet scheduled service. Finally, MUNI states that an additional estimated $3 million annually is needed to improve MUNI's administrative and management capacity as recommended by State and Federal funding agencies, which brings the total to $11 to $18 million in additional funds which might be required to balance the budget, meet scheduled service and address administrative inadequacies in FY 1995-96. (See Appendix IV.) If MUNI prepares updated projections of its funding needs to meet scheduled service levels in the future, we would be pleased to review such data for the Board of Supervisors. Our expenditure estimates use MUNI's approved FY 1995-96 budget as the starting point for our projections, as do MUNI's own projections contained in the SRTP.

Assumptions Regarding MUNI Expenditures

Projected MUNI operating expenses, as detailed in the SRTP and shown in Table 12, assume that operating expenses for most items will rise by 4 percent annually, based on a regional inflation projection at that rate. Other sources, including the Metropolitan Transportation Commission and the Center for the Continuing Study of the California Economy, currently project that inflation will rise at a rate of 3.5 percent per year. The Budget Analyst has used in this lower 3.5 percent rate of inflation in most cases for the projections shown in Table 11.

MUNI currently shows annual operating expenditures of $281 million, of which 76 percent is for labor costs in 1995-96. MUNI's projection in the SRTP assumes that there will be no changes in labor contracts other than 4 percent annual increases keeping pace with inflation for the next ten years. Over the five year period from 1990 to 1995, MUNI's overall salary spending, including regular, overtime, and other types of pay, has increased by 8.4 percent, or an average of 1.68 percent annually (MUNI has experienced an overall decrease in staffing during this period). Over the same time period, fringe benefit costs, including payments to the MUNI Trust Fund, have dropped by 14.6 percent, due primarily to reduced employee retirement contribution rates. Workers Compensation costs have increased by 82 percent.

The Budget Analyst's projections of MUNI's operating costs, as shown in Table 11, begin with MUNI's approved budget for FY 1995-96`, and assume that rather than all labor costs increasing by 4 percent annually as projected in the SRTP, that costs are held to the rate of inflation at 3.5 percent. All other operating costs in the Budget Analyst's projection, with the exception of equipment lease payments which are scheduled to end in FY 1997-98 (SFMRIC) are also shown increasing at an inflation rate of 3.5 percent annually.

Assumptions Regarding MUNI Revenues

On the revenue side, MUNI's projections, shown in Table 13, predict that Federal operating assistance will go to zero, that State and regional funds, many of which are dependent on gas and sales taxes, such as TDA and AB1107 funds, will grow at 4 percent annually, and that local funding sources, such as General Fund revenues and parking revenues, will also increase at 4 percent annually. The Budget Analyst has used a 3.5 percent growth rate for projections of gas and sales-tax dependent sources of revenue, and for the General Fund. In addition, MUNI has projected parking ticket and meter revenue growing at 4 percent annually. Based on information from the Department of Parking and Traffic, the Budget Analyst has used a more conservative projection of 2 percent annual growth for this revenue source.

General Fund Contribution and Parking Revenues

As noted earlier in this report, members of the Board of Supervisors have expressed an interest in completely replacing the General Fund with a dedicated revenue source. The General Fund contribution could go to zero if a stable revenue source were found to replace it. MUNI currently shows General Fund revenues allocated to MUNI growing at approximately 4 percent per year. At minimum, a new, dedicated MUNI revenue source would need to be designed to be able to generate increasing revenues at a rate of 3.5 to 4 percent annually in order to be able to replace the General Fund in MUNI's current financial plan. In addition, projections of MUNI's revenues and expenditures show a growing operating deficit due to rising costs and flattening revenues. This deficit must be met by either increasing revenues, decreasing expenditures, or both.

In FY 1991-92, General Fund support for MUNI was approximately $120,000,000, or 45 percent of the agency's operating revenues. In FY 1994-95, following the passage of Proposition M, a portion of San Francisco's parking revenues was dedicated to MUNI, replacing General Fund revenues in the MUNI budget. MUNI will receive $36,611,000 from the General Fund per se in FY 1995-96, which is 12.7 percent of the agency's operating revenues, and an amount of $76,955,000, or 27.4 percent of its operating revenues, from parking revenues. Taken together, General Fund revenues and parking revenues currently account for approximately 40.1 percent of MUNI's operating budget, a slight increase over FY 1994-95, when these two sources accounted for 38.9 percent of the operating budget.

MUNI projections currently show parking revenues growing at 4 percent per year. DPT has not specifically forecast projected fine or meter revenues past FY 1995-96, however, according to DPT, because this revenue source is primarily dependent on the number of parking tickets issued, which has been decreasing, and on the amount of the fines, this revenue source is likely to remain flat, or to increase only slightly as new technology improves the collection rate of tickets and cuts DPT's administrative costs, unless the City acts to increase parking fines and meter rates. As such, the Budget Analyst's projections shown in Table 11 below show parking revenue growing at a slower rate of 2 percent annually.

It should also be noted that if Proposition H passes in November of 1995, DPT projects that parking fine revenues available to MUNI will drop by $21 to $25 million annually, due to fee rollbacks.

Fares

Over the last three years, MUNI ridership has been decreasing at a rate of 3.6 percent per year, with overall fare revenue decreasing despite offsets from fare increases during the period. MUNI is currently engaged in a marketing study to attract and maintain new and former riders to the system. MUNI shows fare revenues not increasing in the future from the FY 1995-96 level of $90,805,000, plus $674,000 in paratransit fares, for a total of $91,479,000, which is approximately 32.5 percent of operating revenues. The Budget Analyst has used this projection of flat revenues from fares in Table 11, and has also estimated the revenues which could be generated from fare increases, as shown in Section 3 of this report.

Proposition B Sales tax operating funds

MUNI shows Proposition B sales tax funding increasing by 4 percent annually. MUNI's current allocation for operating support from this source is $4,477,000, or approximately 1.6 percent of operating revenues. As noted above, the Budget Analyst has projected this revenue source increasing by a more conservative 3.5 percent annually.

Regional and State sources

AB1107 AB1107 funds are generated from a 1/2 cent sales tax instituted in the BART counties, which are Alameda, Contra Costa, San Francisco, and San Mateo. BART gets 75 percent of the revenue generated from this source, and 25 percent is allocated among the counties by MTC. This 25 percent discretionary fund has historically been divided between MUNI and AC Transit.

State Transit Assistance Act (STA) STA funds are generated through the state taxes on gasoline and diesel fuel, and are allocated by the legislature to transit operators through a formula that rewards performance in generating high levels of combined fare and local tax revenue support. Funding levels from this source are dependent on the State legislature's allocation of funds to the program, which have varied widely in recent years. MUNI's current allocation from this source is approximately $6 million, or 2.2 percent of operating revenues.

Transit Development Assistance (TDA) MUNI reports that the State legislature has recently reallocated additional funds from this source, which is provided from statewide gas tax revenues, to Los Angeles County. If the State continues such reallocations in future fiscal years, MUNI's share of funding from this source could be at risk. MUNI reports that the City could lose at much as $17 million from this source in the next fiscal year.

Federal Sources

The Federal Transit Administration subsidizes transit system operating costs under Section 9 and Section 8 of the Urban Mass Transportation Act (UMTA). Federal operating subsidies to MUNI have dropped about $2.5 million from 1990-91 to the present. MUNI projects that Federal operating subsidies will drop to zero soon in the Federal budget balancing process, at least by FY 2001-02, and possibly sooner. Federal subsidies now represent around 2.3 percent of MUNI's operating revenues, with the current allocation at $6.6 million.

Capital Program

MUNI's capital program for the next five years shows programmed expenditures of approximately $900 million, assumes $571 million in Federal matching funds, and requires $330 million in local, state and regional matching funds. At this point, adequate local matching funds are programmed from state bonds, the San Francisco Municipal Railway Improvement Corporation (SFMRIC), Transit Impact Development Fees (TIDF), and sales tax funds. However, Federal budget balancing efforts, the failure of new State bond measures in 1994 and other State funding shortfalls for transportation make it likely that Federal and State funding for transit capital programs may be significantly delayed or reduced from currently programmed levels. Such delays or reductions would affect MUNI's plans to replace aging vehicles, and to complete service expansions and improvements which are planned. Finally, the ability to carry out other, longer range capital programs, such as replacement of MUNI maintenance and revenue-handling facilities, development of the Third Street corridor, and construction of the Metro East LRV facility, are in doubt.

Conclusions

Table 11 shows the Budget Analyst's projection of MUNI operating revenues and expenses, and concludes with projections of MUNI's operating deficits, with and without continued General Fund support. Table 12 shows baseline operating expenditure projections developed by MUNI, and Table 13 shows operating revenue and deficit projections developed by MUNI.

It is unlikely that Federal or State operating funds to transit agencies will increase over the current projections outlined above in the next five years. The State Legislature and Governor have not fully funded existing programs such as STA, and new sources of both operating and capital funds for transit have not been popular with either the Legislature or the public. The failure of rail and transportation bond issues on the ballot in 1994 have already made it unlikely that the State will be able to fully fund capital projects which have been prioritized for several years.

As described above, and shown in the attached budget projections, MUNI's projected operating deficit rises from a minimum of approximately $7.1 million in FY 1996-97 to over $27 million in FY 1999-00 and higher in the out years. If the General Fund contribution is eliminated, the projected FY 1996-97 deficit would be approximately $44 million, rising to over $68 million in FY 1999-00 and proportionately higher in the out years.

Table 11: Budget Analyst Projections of MUNI Operating Revenues and Expenses

Operating Expenses	**1994-95 Actuals**	**1995-96 Budget**	**1996-97 Projection**	**1997-98**	**1998-99**	**1999-00**	**2000-01**	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**
Personnel												
Misc. employees	67,825	70,488	72,955	75,509	78,151	80,887	83,718	86,648	89,680	92,819	96,068	99,430
Platform	87,028	86,571	89,601	92,737	95,983	99,342	102,819	106,418	110,142	113,997	117,987	122,117
Premium pay	2,422	2,419	2,504	2,591	2,682	2,776	2,873	2,974	3,078	3,185	3,297	3,412
Temporary	950	948	981	1,016	1,051	1,088	1,126	1,165	1,206	1,248	1,292	1,337
Overtime/holiday	4,001	3,467	3,588	3,714	3,844	3,978	4,118	4,262	4,411	4,565	4,725	4,891
Fringe benefits	28,526	29,653	30,691	31,765	32,877	34,027	35,218	36,451	37,727	39,047	40,414	41,828
MUNI Trust Fund	11,379	13,850	14,335	14,836	15,356	15,893	16,449	17,025	17,621	18,238	18,876	19,537
Workers Compensation	9,448	7,472	7,734	8,004	8,284	8,574	8,874	9,185	9,506	9,839	10,184	10,540
Sub-Total Personnel	211,579	214,868	222,388	230,172	238,228	246,566	255,196	264,128	273,372	282,940	292,843	303,093
Non-Personnel												
Contractual Services	6,640	8,072	8,355	8,647	8,950	9,263	9,587	9,923	10,270	10,629	11,001	11,386
Paratransit Services	9,346	10,640	11,012	11,398	11,797	12,210	12,637	13,079	13,537	14,011	14,501	15,009
Fixed Charges	3,698	3,766	3,898	4,034	4,175	4,322	4,473	4,629	4,791	4,959	5,133	5,312
Judgements and Claims	9,051	8,987	9,302	9,627	9,964	10,313	10,674	11,047	11,434	11,834	12,248	12,677
Property Rental	1,121	1,152	1,192	1,234	1,277	1,322	1,368	1,416	1,466	1,517	1,570	1,625
Insurance	375	355	367	380	394	407	422	436	452	467	484	501
Materials and Supplies	15,332	14,763	15,280	15,814	16,368	16,941	17,534	18,147	18,783	19,440	20,120	20,825
Fuel	4,019	4,602	4,763	4,930	5,102	5,281	5,466	5,657	5,855	6,060	6,272	6,492
Tires	1,943	1,989	2,059	2,131	2,205	2,282	2,362	2,445	2,531	2,619	2,711	2,806
Utilities	3,067	3,272	3,387	3,505	3,628	3,755	3,886	4,022	4,163	4,309	4,459	4,615
Services of Other Depai	4,710	4,015	4,156	4,301	4,452	4,607	4,769	4,935	5,108	5,287	5,472	5,664
PTC	1,774	1,828	1,892	1,958	2,027	2,098	2,171	2,247	2,326	2,407	2,491	2,579
Purchaser	458	457	473	490	507	524	543	562	581	602	623	645
Other	721	785	812	841	870	901	932	965	999	1,034	1,070	1,107
Sub-total Non-Personnel	62,255	64,683	66,947	69,290	71,715	74,225	76,823	79,512	82,295	85,175	88,156	91,242
Financing												
SFMRIC	2,108	2,002	1,925	0	0	0	0	0	0	0	0	0
Facilities Capital	655	164	170	176	182	188	195	202	209	216	224	231
Sub-total Financing	2,763	2,166	2,095	176	182	188	195	202	209	216	224	231
Total Expenses	276,597	281,717	291,430	299,638	310,125	320,979	332,214	343,841	355,876	368,331	381,223	394,566
Operating Deficit Including GF Funds		(899)	(7,159)	(13,554)	(20,202)	(27,244)	(33,722)	(40,397)	(46,526)	(52,873)	(59,333)	(66,046)
Operating Deficit If GF Funds are Removed			(44,017)	(51,701)	(59,685)	(68,109)	(76,017)	(84,172)	(91,834)	(99,766)	(107,867)	(116,279)

All numbers shown in '000s

Table 11: Budget Analyst Projections of MUNI Operating Revenues and Expenses

Operating Revenues	1994-95 Actuals	1995-96 Budget	1996-97 Projected	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
*Passenger Fares	92,795	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805	90,805
*Paratransit Fares	652	674	674	674	674	674	674	674	674	674	674	674
Advertising	2,454	2,562	2,652	2,744	2,841	2,940	3,043	3,149	3,260	3,374	3,492	3,614
Miscellaneous Revenue	634	480	497	514	532	551	570	590	611	632	654	677
**Federal Subvention	5,769	5,322	4,790	4,311	3,018	1,509	754	0	0	0	0	0
Bridge tolls (SFRMIC)	2,285	2,002	1,925	0	0	0	0	0	0	0	0	0
State & Regional Subv.	42,017	47,720	49,390	51,119	52,908	54,760	56,676	58,660	60,713	62,838	65,037	67,314
STA Paratransit	497	514	532	551	570	590	610	632	654	677	701	725
BART ADA	632	754	780	808	836	865	896	927	959	993	1,028	1,064
SFTA Sales Tax	4,362	4,477	4,634	4,796	4,964	5,137	5,317	5,503	5,696	5,895	6,102	6,315
***TIDF	6,518	4,637	3,645	2,654	2,420	2,211	2,023	1,856	1,707	1,576	1,576	1,576
Commission on Aging	942	575	595	616	638	660	683	707	732	757	784	811
Hetch Hetchy	7,730	7,730	8,001	8,281	8,570	8,870	9,181	9,502	9,835	10,179	10,535	10,904
General Fund	40,089	35,611	36,857	38,147	39,483	40,864	42,295	43,775	45,307	46,893	48,534	50,233
Parking Revenues	71,408	76,955	78,494	80,064	81,665	83,299	84,965	86,664	88,397	90,165	91,968	93,808
Total Revenues	278,784	280,818	284,271	286,084	289,923	293,735	298,492	303,444	309,349	315,458	321,890	328,519

*No fare increases are assumed for passenger and paratransit fares
**Federal subvention will decrease by 10% in 96-97 and 97-98, then 30 %, then 50 %, to zero
***TIDF assumption is $1.0 m annual decrease in operating assistances through 97-98, then 10 % reduction per year

All numbers shown in '000s

BASELINE OPERATING EXPENDITURES PROJECTIONS (in 000's)

Expense Category	Actual Expenditure 1994-95	Adopted Budget 1995-96	Change 95 to 96	PROJECTIONS 1996-97	1997-98	1998-99	1999-00	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Miscellaneous	$67,825	$70,808	$2,983	$73,640	$76,586	$79,649	$82,835	$86,149	$89,595	$93,178	$96,906	$100,782
Platform	87,028	86,571	(457)	90,034	93,635	97,381	101,276	105,327	109,540	113,922	118,478	123,218
Premium Pay (misc. only)	2,422	2,419	(3)	2,516	2,616	2,721	2,830	2,943	3,061	3,183	3,311	3,443
Temporary	950	948	(2)	986	1,025	1,066	1,109	1,153	1,200	1,248	1,297	1,349
Overtime/Holiday	4,001	3,467	(534)	3,606	3,750	3,900	4,056	4,218	4,387	4,562	4,745	4,935
In-Lieu Pay	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL LABOR	**162,226**	**164,213**	**1,987**	**170,782**	**177,613**	**184,717**	**192,106**	**199,790**	**207,782**	**216,093**	**224,737**	**233,726**
Fringe Benefits	28,526	29,174	648	30,341	31,555	32,817	34,129	35,495	36,914	38,391	39,927	41,524
Trust Fund	11,379	13,850	2,471	14,404	14,980	15,579	16,203	16,851	17,525	18,226	18,955	19,713
TOTAL BENEFITS	**39,905**	**43,024**	**3,119**	**44,745**	**46,535**	**48,396**	**50,332**	**52,345**	**54,439**	**56,617**	**58,881**	**61,237**
Workers' Compensation	9,448	7,472	(1,976)	7,771	8,082	8,405	8,741	9,091	9,454	9,833	10,226	10,635
TOTAL PERSONNEL	**211,579**	**214,709**	**3,130**	**223,297**	**232,229**	**241,518**	**251,179**	**261,226**	**271,675**	**282,542**	**293,844**	**305,598**
Contractual Services	6,640	8,072	1,432	8,395	8,731	9,080	9,443	9,821	10,214	10,622	11,047	11,489
Paratransit Services	9,346	10,640	1,294	11,066	11,508	11,969	12,447	12,945	13,463	14,002	14,562	15,144
Fixed Charges	3,698	3,766	68	3,917	4,073	4,236	4,406	4,582	4,765	4,956	5,154	5,360
Judgements & Claims	9,051	8,987	(64)	9,346	9,720	10,109	10,514	10,934	11,371	11,826	12,299	12,791
Property Rental	1,121	1,152	31	1,198	1,246	1,296	1,348	1,402	1,458	1,516	1,577	1,640
Insurance	375	355	(20)	369	384	399	415	432	449	467	486	505
Materials & Supplies	15,332	14,763	(569)	15,354	15,968	16,606	17,271	17,961	18,680	19,427	20,204	21,012
Fuel	4,019	4,602	583	4,786	4,978	5,177	5,384	5,599	5,823	6,056	6,298	6,550
Tires	1,943	1,989	46	2,069	2,151	2,237	2,327	2,420	2,517	2,617	2,722	2,831
Utilities	3,067	3,272	205	3,403	3,539	3,681	3,828	3,981	4,140	4,306	4,478	4,657
Other Departments	4,710	3,275	(1,435)	3,406	3,542	3,684	3,831	3,985	4,144	4,310	4,482	4,661
PUC	1,774	1,828	54	1,901	1,977	2,056	2,139	2,224	2,313	2,406	2,502	2,602
Purchaser	458	457	(1)	475	494	514	535	556	578	601	625	650
Other	721	785	64	816	849	883	918	955	993	1,033	1,074	1,117
TOTAL NON-PERSONNEL	**62,255**	**63,943**	**1,688**	**66,501**	**69,161**	**71,927**	**74,804**	**77,796**	**80,908**	**84,145**	**87,510**	**91,011**
SUBTOTAL	**273,834**	**278,652**	**4,818**	**289,798**	**301,390**	**313,446**	**325,983**	**339,023**	**352,584**	**366,687**	**381,355**	**396,609**
SFMRIC	2,108	2,002	(106)	1,925	0	0	0	0	0	0	0	0
Facilities Capital	655	164	(491)	171	177	184	192	200	208	216	224	233
Clean On-Time	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	**276,597**	**280,818**	**4,221**	**291,894**	**301,567**	**313,630**	**326,175**	**339,222**	**352,791**	**366,903**	**381,579**	**396,842**

SOURCES

1. For 1994-95 expenses, 105 report as of 08/18/95 (final close).

2. For 1995-96 expenses, Phase D Board approved final budget.

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TABLE 5.7
MUNICIPAL RAILWAY OPERATING REVENUE PROJECTIONS
(IN THOUSANDS)

	ACTUAL	ADOPTED	CHANGE	FUTURE YEAR PROJECTIONS *All categories inflated at 4% per year except for * items explained below.								
Revenue Category	1994-95	1995-96	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
Passenger Fares*	$92,795	$90,805	($1,990)	$90,805	$90,805	$90,805	$90,805	$90,805	$90,805	$90,805	$90,805	$90,805
Paratransit Fares*	652	674	22	674	674	674	674	674	674	674	674	674
Advertising	2,454	2,562	108	2,664	2,771	2,882	2,997	3,117	3,242	3,371	3,506	3,647
Misc. Revenue	634	480	(154)	499	519	540	562	584	607	632	657	683
Federal Subvention*	5,769	5,322	(447)	4,790	4,311	3,018	1,509	754	0	0	0	0
Capital Subvent(SFMRIC)	2,285	2,002	(283)	1,925	0	0	0	0	0	0	0	0
State & Regional Subvent	42,017	47,720	5,703	49,629	51,614	53,679	55,826	58,059	60,381	62,796	65,308	67,920
STA Paratransit	497	514	17	535	556	578	601	625	650	676	703	732
BART ADA	632	754	122	784	816	848	882	917	954	992	1,032	1,073
SFTA Sales Tax	4,362	4,477	115	4,656	4,842	5,036	5,237	5,447	5,665	5,891	6,127	6,372
TIDF*	6,518	4,637	(1,881)	3,645	2,654	2,420	2,211	2,023	1,856	1,707	1,576	1,458
Comission on Aging	942	575	(367)	598	622	647	673	700	728	757	787	818
Hetchy/Water Subvention	7,730	7,730	0	8,039	8,361	8,695	9,043	9,405	9,781	10,172	10,579	11,002
Subtotal	**$167,287**	**$168,252**	**$965**	**$169,243**	**$168,545**	**$169,821**	**$171,020**	**$173,110**	**$175,343**	**$178,474**	**$181,754**	**$185,185**
City General Fund	40,089	35,611	(4,478)	37,035	38,517	40,058	41,660	43,326	45,059	46,862	48,736	50,686
Parking Revenues	71,408	76,955	5,547	80,033	83,235	86,564	90,026	93,628	97,373	101,268	105,318	109,531
Subtotal	**$111,497**	**$112,566**	**$1,069**	**$117,069**	**$121,751**	**$126,621**	**$131,686**	**$136,954**	**$142,432**	**$148,129**	**$154,054**	**$160,217**
REVENUE TOTAL	**$278,784**	**$280,818**	**$2,034**	**$286,312**	**$290,296**	**$296,443**	**$302,706**	**$310,064**	**$317,775**	**$326,604**	**$335,809**	**$345,402**
EXPENSE TOTAL	***$278,768***	**$281,412**	**$2,644**	**$292,511**	**$302,210**	**$308,316**	**$320,649**	**$333,475**	**$346,814**	**$360,687**	**$375,114**	***$390,119***
Surplus/(Deficit)	**$16**	**($594)**	**($610)**	**($6,199)**	**($11,914)**	**($11,873)**	**($17,943)**	**($23,411)**	**($29,039)**	**($34,083)**	**($39,305)**	**($44,717)**

* Passenger & Paratransit fares: No increase projected at this time.
* Federal Subvention: Assumes 10% reduction in 95-96 & 97-98, 30% in 98-99, 50% in 99-00, to zero in 00-01
  These estimates are subject to the federal budget process, and may be revised substantially.
*TIDF: Assumes $1.0 million annual decrease in operating assistance through 1997-98, with a 10% reduction in later years.
  Portion of TIDF contribution for administrative costs will increase by 4% per year.

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Methodology Used for Calculation of Vehicle License/Registration Fee Surcharge Revenues

Under the State Vehicle Code, the State currently imposes a vehicle license fee (VLF) on all vehicles that use the public highways, which is equal to 2 percent of the vehicle's market value, based on the depreciated value of the vehicle. The State also imposes a $29 vehicle registration fee on all such vehicles. The passage of AB925 authorized the City, subject to voter approval, to impose a local VLF surcharge of up to 15 percent of the State's vehicle license fee, and a $4 vehicle registration fee surcharge, on all vehicles except for those that are expressly exempted from the payment of vehicle registration fees and commercial vehicles weighing more than 4,000 pounds unladen.

In order to project the potential revenues from implementing these surcharges, the following information was required:

1. Estimate of the typical vehicle license fee paid by vehicles registered in San Francisco, by vehicle type (automobile, motorcycle, truck, trailer).

2. Projection of the rate of growth of the typical vehicle license fee, by vehicle type.

3. Estimate of the number of registered vehicles that would be subject to the tax (i.e., excluding commercial vehicles weighing more than 4,000 pounds unladen).

4. Projection of the rate of growth of the number of registered vehicles that would be subject to the tax.

The methodology we have used to make these calculations is described below.

Estimate of the typical vehicle license fee paid by vehicles registered in San Francisco, by vehicle type (automobile, motorcycle, truck, trailer): Each calendar year, the Department of Motor Vehicles (DMV) calculates a State-wide average VLF for (a) automobiles/motorcycles, and (b) trucks/trailers. In 1994, the last full year for which the average annual VLF was calculated by the DMV, the average VLF for automobiles and motorcycles was $105, and the average VLF for trucks and trailers was $64. These figures were respectively used as the base VLF for future year projections. The Budget Analyst notes that the VLF in San Francisco may be higher than the State-wide averages, if there is a greater proportion of luxury vehicles registered in San Francisco than statewide. However, data pertaining directly to San Francisco is not available, so we had no basis for adjusting the average VLF.

Projection of the rate of growth of the typical vehicle license fee, by vehicle type. To estimate the annual growth rate of the average VLF, an average growth rate was calculated based on five years of historical data. The historical data indicated that the VLF increased by an average of 2.83 percent annually for automobiles/motorcycles, and decreased by 0.38 percent annually for trucks/trailers.

Estimate of the number of registered vehicles that would be subject to the tax (i.e., excluding commercial vehicles weighing more than 4,000 pounds unladen): The Department of Motor Vehicles (DMV) provides annual documentation of the number of motor vehicle registrations per county ("Estimated Fees Paid Vehicle Registrations By County"). In 1994, the DMV reported the following registrations:

Automobiles	322,445
Motorcycles	17,270
Trucks	61,227
Trailers	22,082

One provision of AB925 is that the City may not charge a surcharge on commercial vehicles which weigh more than 4,000 pounds unladen. The DMV has advised us that all trucks are commercial vehicles, and all trailers except camper trailers, and coach trailers are commercial vehicles. Statewide, 66 percent of all registered trucks weigh less than 4,000 pounds. Among trailers, 23 percent are non-commercial vehicles, and another 65 percent are commercial vehicles weighing less than 4,000 pounds. Therefore statewide 88 percent (65 percent + 23 percent) of all trailers, and 66 percent of all trucks would be subject to the VLF and VRF surcharge fees. In order to calculate the number of registered trucks and trailers in San Francisco which would be subject to the VLF and VRF surcharge fees, we have applied the statewide ratios of trucks and trailers subject to these surcharge fees to our estimate of registered trucks and trailers in San Francisco. In other words, we estimate that a base number of 40,410 trucks (61,227 x .66) and 19,432 (22,082 x .88) trailers would have been subject to the surcharges in 1994.

Projection of the rate of growth of the number of registered vehicles that would be subject to the tax. In order to project the growth rate of vehicles in San Francisco, the DMV provided a State-wide forecast of the growth of vehicle registrations for (1) automobiles, (2) motorcycles, (3) trucks, and (4) trailers for FY 1995-96, FY 1996-97, and FY 1997-89. These State-wide forecasts were applied to the corresponding estimated number of vehicles in San Francisco in each category in 1994.

The growth rates forecast by the DMV for FY 1997-98 were used for the remaining years: 1.46 percent increase annually for automobiles, 3.37 percent decrease annually for motorcycles, .07 percent decrease annually for trucks, and 1.09 percent decrease annually for trailers.

FINANCING EXAMPLES FROM OTHER TRANSIT AGENCIES

As part of the research for this report, the Budget Analyst contacted a sample of local transit agencies in California and other states for information regarding innovative or new dedicated funding sources for transit. We also consulted with officials of the Metropolitan Transportation Commission and the California Transit Association to identify regional, state, and national examples of innovative funding for transit operations. In general, we found that MUNI already employs most of the dedicated funding options that are used by other localities to support transit, or because of structural differences between MUNI and other systems, certain types of local transit funding are not applicable. However, there are examples of financing efforts in other jurisdictions that are useful as possible future proposals for MUNI, and as comparative standards.

The transit agencies discussed below generally have similar sources of operating support to those employed by MUNI (Federal, State and regional funds, gas and sales taxes, etc.); this Appendix only describes funding sources for these agencies which are substantially different than those employed by MUNI.

Sacramento

The Sacramento Regional Transit District (RTD), serving Sacramento and its suburbs, has researched the possibility of generating funds for transit through a county services area assessment--comparable to a citywide assessment district as discussed in Section 3 of this report. Currently, Sacramento has county service area assessments for other services, including street lighting and water quality monitoring in certain areas. However, the proposal to generate transit funds through this mechanism was not approved by the Sacramento County Board of Supervisors.

According to RTD, the agency had proposed to generate a portion of the funds which are required to bring the RTD into compliance with the Americans with Disabilities Act (ADA) through an assessment district. Funds would have been used both for operating costs and for some limited capital projects. The proposal would have generated approximately $2.0 to $2.5 million annually through an assessment of $3.00 to $4.00 per single family home, with higher assessment levels for other types of land uses, such as commercial property.

Los Angeles

The Los Angeles County Metropolitan Transportation Authority (LACMTA) has instituted two benefit assessment districts in connection with the construction of the new Metro subway system now being built in Los Angeles. The districts were established by administrative processes, and will sunset after a period of 15 years. Each encompasses an area within a 1/2 mile radius of a new station site, with one district surrounding the downtown station, effectively bringing greater downtown Los Angeles into the district, and the second district primarily consisting of a commercial area around the westernmost station in the system. Under these two districts, an assessment is levied on all "assessable square footage" within the districts, with assessment levels set at zero for the initial two year period until the stations open, increasing to 17 cents per square foot, and then increasing gradually to a level of 45 cents per square foot in the final years of the district. "Assessable square footage" for the districts has been defined to include commercial and retail property, and excludes residential property. In order to raise the capital funds necessary for the subway construction, LACMTA sold bonds anticipating the revenues to be generated by the assessment districts. With the bond financing plan, the funds to be generated under these assessment districts provided approximately $130 million of the $1.25 billion dollar capital cost to construct the initial segments of the subway system, and served as the major source of local matching funds for Federal funds dedicated to the subway. The LACMTA assessment districts do not provide operating funds for the transit system.

LACMTA tentative financing plans include proposals for 3 to 4 additional benefit assessment districts surrounding new subway stations as they are constructed. However, under the enabling legislation which established the authority for the LACMTA benefit assessment districts, property owners may choose to have a vote on the creation of the district. A vote is mandated if a petition signed by property owners representing at least 25 percent of the assessed valuation of property in the district is submitted, and, in the election itself, a vote of property owners representing more than 50 percent of the assessable property value may reject the district. LACMTA officials expect that 2 of the 4 possible proposed new districts will choose an election, and may reject the benefit assessment district.

In addition to the standard sources of local financing used by other transit agencies, and the benefit assessment districts described above, Los Angeles' local financing plan includes a cost-containment and revenue-generating program under which LACMTA does not own or maintain bus stops and transit kiosks and shelters throughout most of their operating territory. Stops and kiosks are maintained, and advertising on them is sold, by private companies, with some regulation by the cities and towns where stops are located. LACMTA receives some advertising revenue from this program, and does not incur the cost of maintaining bus stops and kiosks in good operating condition.

Santa Clara

Santa Clara County Transit District (SCCTD) is funded in part through a dedicated District-wide 1/2 cent sales tax which has been in place since 1976. In 1984, Santa Clara County voters approved Measure A, which instituted an additional 1/2 cent sales tax for a period of ten years to provide funds for freeway construction. In 1992, anticipating the expiration of this tax, a second Measure A was placed on the ballot to extend the 1/2 cent sales tax for a period of 20 years to provide funds primarily for transit, with some highway projects included as well. These funds would have been allocated by a separate authority, as San Francisco's Measure B funds are allocated by the San Francisco County Transportation Authority. After its passage, Santa Clara's 1992 Measure A was challenged in court, and invalidated by the California Supreme Court in 1995 because the measure had not gained a 2/3 majority vote.

Like Los Angeles, SCCTD has recently decided to have operation and maintenance of its bus shelters taken over by a media firm. The firm will be responsible for maintenance of the shelters and will sell advertising on the shelters. SCCTD reports that this program will both generate increased advertising revenues, and will cut the District's operations and maintenance costs.

Philadelphia

The Southeast Pennsylvania Public Transportation Agency, SEPTA, is a regional system serving Philadelphia and its suburbs. Part of its budget is raised through a statewide set of transportation-related taxes that have been imposed by the Pennsylvania legislature. The law that set or increased taxes for this purpose, Act 26, contains a formula which guarantees a minimum percentage of the funds raised to SEPTA, and makes some funds available to other transportation projects. In the current fiscal year, SEPTA will receive approximately $111 million under Act 26, of which approximately $40 million may be used for operating costs, and the remaining $71 million supports capital projects.

The taxes established or increased by Act 26 are:

- A fee of $1.00 per motor vehicle tire sold;
- A tax of 3 percent on motor vehicle leases;
- A tax of 2 percent on motor vehicle rentals;
- A portion of the state sales tax (amount unknown at this writing)
- A tax on utility companies of .012 percent of gross receipts

In order to receive Act 26 funds, SEPTA and other agencies are required to generate 3.33 percent of the overall amount granted in local matching funds. SEPTA raises these funds through receiving funds from counties and cities in their service area.

Portland

Portland, Oregon's Tri-County Metropolitan Transportation District of Oregon (TRIMET), serves approximately 1.2 million people in metropolitan Portland. TRIMET was created as a sub-division of the State, and was established with certain taxing powers to fund transit. Currently, TRIMET levies a tax of .6176 percent of gross payroll, which is paid by employers in the metropolitan Portland area. For FY 1995-96, this tax is estimated to raise $92.6 million, which may be used for capital or operating costs without restriction. In addition, TRIMET currently has authority to impose, and is researching the possibility of, a business license fee, which would probably be a flat fee per employee, again paid by employers.

PUBLIC TRANSPORTATION COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

MEMORANDUM

DATE: November 6, 1995

TO: Ms. Peg Stevensen
Ms. Eve Sternberg

THROUGH: Philip H. Adams
Director of Public Transportation

FROM: Roger Contreras, Deputy Director
Finance, Administration & Personnel

SUBJECT: DRAFT REPORT ON DEDICATED FUNDING SOURCES FOR MUNI

Thank you for the Draft Report on the above-referenced subject. We have reviewed the document carefully, including the revisions that you forwarded, and believe that for the most part it fairly addresses some of the options identified as potential dedicated funding sources for the Municipal Railway. In two specific cases, you note the unavailability of data and further point out specific problems associated with the particular approach. But even that proved to be helpful because it identified additional funding possibilities as well as their peculiar constraints.

We appreciate the opportunity to comment and welcome the opportunity to discuss this important matter with you before the report is presented to the Board of Supervisors. Our comments, listed below, are intended to serve as a guide for our discussion and help to ensure that the best possible report goes forward.

Additional Options

We believe that the approval of dedicated funding sources will be more likely if broad-based voter support is ensured. To that effect, we offer the following additional options:

1. Airport Passenger Fee (@ $.10 per psngr = about $4 million)
   Would require a statutory change because those fees are currently restricted for aviation-related use only.

2. Parking Fee (e.g.,$1/space/day = approximately $6.5 million)
   Applied to all publicly and privately owned parking spaces in the Downtown area.

3. Special Event Cost Recovery (To be determined)
   Fully, rather than partially, recover the cost of services provided for special events.

949 Presidio Avenue, Room 238, San Francisco, California 94115 (415) 923-6389 · (415) 923-6166 FAX

4. Hotel Occupancy Tax (either an increase or reallocation of the existing revenue - To be determined)

5. Convention & Visitors Bureau (To be determined)

General Comments

• - Muni's funding requirements are understated because the currently approved budget provides for less than the full amount of scheduled service. We estimate that an additional $6 million would be required to meet scheduled service.

• - The projected deficit is further understated by an amount ranging from $2 million to $9 million in the light of five consecutive years of supplemental appropriations to balance Muni's overall budget.

• - The cost of Muni's administrative inadequacy, not included in the current deficit calculation, is estimated to be approximately $3 million. This is based upon mandates/requirements of external funding agencies and the loss of staffing and subsidies from Proposition M implementation (please refer to attached MTC Triennial Performance Audit recommendation #2).

• - The Budget Analyst's assumption regarding the flat and constant availability of Transportation Development Act funding may be optimistic in light of recent state allocation developments (please refer to attached MTC Topic #4 item).

• - If the sufficiency of existing funding sources is questionable, it will compromise our ability to balance the budget based upon new revenue sources and will impair our ability to meet service expectations.

• - With respect to the Capital Program, the Problem Statement does not address whether the dedicated funds are applicable to Muni's operating budget or capital program. We believe that funds obtained from dedicated revenue sources should be flexible for application to both the operating budget and capital program. In this case, Muni will continue the pay-as-you-go funding strategy for the capital program.

• - Depreciation is not included in our calculation of the projected deficit. However, a portion of funds obtained from dedicated revenue sources should be set aside to cover depreciated assets.

- The report indicates that the BART sales tax allocation could be revised to provide additional funding to Muni. Our analysis suggests that a more equitable allocation based upon ridership and county of (sales tax) origin would generate an additional $10 million in the first year.

- The funding issue should not be viewed in isolation as just a SF or Muni issue. Transit funding is a major, global issue. What are other cities and countries doing?

- We had insufficient time to perform in-depth analyses of the Budget Analyst's calculations. To that extent, our comments are qualified.

- Although not a part of this specific assignment, we believe that there should be some attempt to address solutions at the regional level. For example, why not suggest the formation of a task force to study this issue at the regional level so that the best possible solution can be developed in the broadest practical context and the appropriate political base/support formed.

Municipal Railway Position

Muni's operating and capital budgets are insufficient to meet current and future requirements;

Muni needs a predictable source of operating and capital funds in order to effectively plan and manage its service expectations;

The need to restore balance to the operating budget precludes realizing internal operating savings;

The sufficiency of Muni's budget must be based upon balancing the budget, restoring service and meeting federal/state/regional/local administrative and technical organizational requirements;

Alternatives presented for the Board of Supervisors' consideration should meet the criteria of being reliable and stable funding sources. Additionally, any of the alternatives should be indexed to inflation and not restrict Muni's ability to increase fares as necessary;

To accomplish any of the alternatives that require voter approval, a comprehensive ballot measure should be packaged with an accompanying investment strategy. That strategy should address what the voter will get, what Muni would do and how service would be improved if the revenue were forthcoming.

A variety of dedicated funding sources --rather than a single one-- must be identified, including existing sources, new sources and potential changes in state and federal legislation;

Dedicated funding sources must be protected from non-transit use; and

Dedicated funding sources must be flexible, including permanent source of general funds.

cc: Arnold Baker
Kathy Gilbert
David Stumpo
Nancy Whelan
Project File
Chron

Triennial Performance Audit
of the
San Francisco Municipal Railway

FINAL AUDIT REPORT

June 1995

prepared for the

Metropolitan Transportation Commission

by

Mundle & Associates, Inc.
TRANSPORTATION MANAGEMENT CONSULTANTS

1. IMPLEMENT REDUCTIONS IN SERVICE, CONSISTENT WITH AVAILABLE RESOURCES AND COMMENSURATE WITH CURRENT RIDERSHIP.

It is obvious from this limited review that Muni is not providing reliable service. It does not have enough people to put the scheduled number of vehicles in service. Those vehicles that are in service experience frequent breakdowns, resulting in missed and sporadic service.

Muni has one of the highest per capita ridership levels of any transit system in the country. This illustrates the importance of Muni to the public. But its substandard on-street performance means that Muni is not serving the public well. Irregular service frequencies from missed service exacerbate the problem.

Muni needs to take a hard look at its available resources and determine how much service it can produce reliably and consistently. It should commit to providing this level and be accountable for it. For example, instead of scheduling service at a 15-minute headway and missing one of four trips every hour, it should schedule service every 20 minutes and commit its resources to meet this schedule. This should not be viewed as a decrease in service. Rather it is an honest admission of what Muni can deliver.

The revising of schedules and service hours should take into account the ridership declines that Muni has experienced. Muni's resources should be reallocated to reflect current patterns and ridership levels on the different lines and modes.

2. ADEQUATELY STAFF ALL DIVISIONS WITHIN THE PUBLIC TRANSPORTATION DEPARTMENT TO PERFORM KEY DUTIES.

A number of functions within Muni appear to be understaffed to meet even the most basic of responsibilities. Muni should undertake a staffing level comparison with "peer" systems. It should relate staff size to the level of service provided and determine the minimum staff requirements for all key functions. This information should be used to seek appropriate funding through the budget process. In addition to making sure there are adequate "front line" personnel such as operators and mechanics, Muni needs to have adequate personnel to provide service information to the public, process on-time performance data and other operating results collected in the field, and prepare performance reports to keep management informed of efforts to reverse Muni's current situation.

MTC
METROPOLITAN
TRANSPORTATION
COMMISSION

MTC/SAN FRANCISCO LUNCH MEETING

12:00 pm, Tuesday, October 10, 1995
La Mansión del Rio — Las Canarias Restaurant
112 College Street
San Antonio, Texas

AGENDA

PARTICIPANTS:

FROM MTC:

Commissioners:
Jane Baker
Jim Beall
Sharon Brown
Ed Campbell
Fred Negri
Jim Spering

Staff:
Larry Dahms
Francis Chin
Steve Heminger

FROM SAN FRANCISCO:

Board Members:
Tom Ammanio
John Ballestresos
Tom Hsieh
Willie Kennedy

Staff:
Phil Adams
Brigid Hynes-Cherin
Pam Granger

TOPICS OF MUTUAL INTEREST

1. Transbay Terminal Design
2. CalTrain Extension
3. Competition for Discretionary Funding
4. Erosion of Transit Funding Support

DLG:Agenda—San Francisco-10/10/95

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MTC/SAN FRANCISCO — TOPICS IN BRIEF

1. Transbay Terminal Design
   - Caltrans must retrofit the terminal to resist the next earthquake at a cost of over $20 million.
   - San Francisco prefers to move the terminal.
   - Its location must be decided in cooperation with JPB -CalTrain extension decision.
   - RAFT and its allies seek to retain the current Transbay Terminal with trains restored to the upper deck.
   - A San Francisco Planning/Redevelopment Agency joint project involving Caltrans and the relevant transit agencies is examining the alternatives with a conclusion expected in December, 1995.

2. CalTrain Extension
   - MTC Resolution No. 1876 includes the project funded 75% locally and 25% from FTA Section 3 rail modernization.
   - An MTC led project completed in 1994 recommended a Market and Beale Station location, but left the door ajar for continued review of a Transbay Terminal location.
   - RAFT and its allies prefer the Transbay Terminal location.
   - The JPB is in the environmental review stage with the Beale and Transbay Terminal locations under consideration and is coordinating the study with the San Francisco Transbay Terminal study.
   - The Supreme Court decision casts doubt on the source of Santa Clara assistance, previously assumed to be available for electrification.
   - CalTrain supporters see the BART to SFO as threatening CalTrain improvements.

3. Competition for Discretionary Funding
   - Seismic retrofit remains unclear in San Francisco, requiring more money than may be forthcoming (i.e. Central Freeway, Embarcadero and transition structures.)
   - The Embarcadero replacement project design and cost are yet to be decided.
   - The sales tax money will not fully fund both Bay Shore and Geary Muni Metro extensions.
   - Doyle Drive is being retrofitted by Caltrans, but long sought safety improvements are still not designed or funded.
   - The Golden Gate Bridge needs more than $100 million from the State or Federal government to add to its own funding for earthquake retrofit.
   - The source for all of this...?

4. Erosion of Transit Funding Support
   - FTA Section 9 funding has been cut in half in the past two years and is expected to be reduced to zero. Muni's loss is almost $8 million.
   - The Los Angeles and Orange County raid on TDA funds raises the potential for a state-wide attack. Muni's loss exposure is approximately $17 million.
   - It does not appear that the San Francisco General Fund is keeping up with expenses, let alone replacing lost revenues.
   - Muni problems are echoed in smaller amounts elsewhere in the region.
   - Transit options:
     cut costs
     cut service
     raise fares
     find new riders
     raise revenues
     and...

LDD:dlg:Topics—San Francisco-10/10/95